

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 EB-07 SP-02 USIA-06 AID-05
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 DODE-00 PM-04 H-01 L-03
PA-01 PRS-01 ABF-01 FS-01 ACDA-07 /109 W
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R 290902Z JUN 77
FM AMEMBASSY VIENTIANE
TO SECSTATE WASHDC 8260
INFO AMEMBASSY BANGKOK
AMEMBASSY PARIS
AMCONSUL HONG KONG
AMCONSUL UDORN
CINCPAC

C O N F I D E N T I A L VIENTIANE 0976

CINCPAC FOR POLAD

E.O. 11652: GDS
TAGS: ECON EFIN EALR LA CZ
SUBJECT: REPORTS OF IMPENDING LPDR KIP DEVALUATION

REF: VIENTIANE 0963

1. INDIAN MERCHANT TOLD EMBOFF THAT HE EXPECTED THE LPDR TO SOON ESTABLISH A MULTI-EXCHANGE RATE BY DEVALUING THE CURRENCY TO 1000 KIP PER ONE DOLLAR FOR MERCHANTS WHILE MAINTAINING THE PRESENT 200 KIP PER DOLLAR RATE FOR ALL OTHER PRIVATE INDIVIDUALS AND FOREIGN MISSIONS.

2. ACCORDING TO A WELL INFORMED WESTERN BUSINESSMAN, LAO OFFICIALS HAVE BEEN CONSIDERING DEVALUING THE KIP EVER SINCE MARCH 1977 WHEN A TEAM OF CZECH ECONOMISTS
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RECOMMENDED THAT THE LAO DEVALUE ITS CURRENCY TO 500 KIP TO ONE DOLLAR.

3. SOVIET MILITARY ATTACHE WITH WHOM INDIAN MERCHANT DOES FREE MARKET BUSINESS WARNED MERCHANT JUNE 24 THAT THE LPDR MIGHT SOON DEVALUE THE KIP. MERCHANT NOTED THAT HIS OTHER SOVIET CLIENTS HAD NOT CHANGED FREE

MARKET DOLLARS WITH HIM IN A WEEK OR, IF SO, EXCHANGED
VERY SMALL AMOUNTS.

4. SAME MERCHANT SAID THAT DURING WEEK OF JUNE 24
VIENTIANE MUNICIPAL AUTHORITIES HELD A SEMINAR FOR
SMALL MERCHANTS AND WARNED THEM TO VOLUNTARILY KEEP
THE FREE MARKET EXCHANGE RATE AT 1000 KIP PER DOLLAR
AND LOWER PRICES OR THE GOVERNMENT WOULD CONFISCATE
THEIR BUSINESSES. THE FREE MARKET RATE DROPPED FROM
2100 JUNE 20 TO 1600 JUNE 27 BEFORE CLIMBING TO 1750
PER DOLLAR JUNE 28.

5. REFTEL REPORTED THAT JUNE 20 THE GOVERNMENT
EFFECTIVELY STOPPED RIVER TRADE WITH THAILAND. ON
JUNE 29, HOWEVER, A RELIABLE LAO SOURCE TOLD EMBOFF
THAT LPLA SOLDIERS AT THE THA DEUA RIVER BORDER WERE
PERMITTING LAO MERCHANTS TO EXCHANGE MONEY AT THE 1000
KIP PER DOLLAR RATE AND TO TRADE LOCALLY PRODUCED
GOODS SUCH AS SALT, DRIED BUFFALO SKIN AND RATTAN
SHOOTS FOR THAI MANUFACTURED PRODUCTS.

6. COMMENT: THE 500 PERCENT DEVALUATION AND
ESTABLISHMENT OF A MULTIPLE EXCHANGE RATE MIGHT REDUCE
THE VOLUME OF FREE MARKET CURRENCY EXCHANGES AND
ENCOURAGE EXPORTS. IT IS NOT LIKELY THAT THE MOVE
WOULD COMPLETELY ELIMINATE THE FREE MARKET. ONE
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WOULD INSTEAD EXPECT A THREE LEVEL EXCHANGE RATE IN
LAOS: (A) THE OFFICIAL 200 KIP PER DOLLAR FOR PRIVATE
INDIVIDUALS AND FOREIGN MISSIONS; (B) THE 1000 KIP PER
DOLLAR RATE FOR MERCHANTS; AND (C) A HIGHER FREE
MARKET EXCHANGE RATE.
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